

Message Text

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ACTION EB-07

INFO OCT-01 ARA-10 AF-10 EA-07 EUR-12 NEA-10 IO-13

ISO-00 AGR-05 USIE-00 CEA-01 CIAE-00 COME-00

DODE-00 FRB-03 H-01 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 EPG-02 AID-05 SS-15 STR-04

ITC-01 TRSE-00 PRS-01 SP-02 FEAE-00 OMB-01 SSO-00

NSCE-00 INRE-00 SIL-01 /137 W

-----131524Z 049817 /45

O R 131420Z JUN 77

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC IMMEDIATE 2190

INFO AMEMBASSY BRUSSELS IMMEDIATE

AMEMBASSY PARIS

USMISSION GENEVA

AMCONSUL SAO PAULO

AMCONSUL RIO DE JANEIRO

C O N F I D E N T I A L BRASILIA 4811

USEEC

USOECD

USMTN

E.O. 11652: XGDS

TAGS: EAGR, BR

SUBJ: BRAZILIAN/EEC NEGOTIATIONS ON COUNTERVAILING DUTIES ON
SOYBEANS

1. WELL INFORMED SOURCE TOLD CONSUL GENERAL SAO PAULO THAT
EEC NEGOTIATORS
HAD SURPRISED BRAZILIANS IN RECENT NEGOTIATIONS BY INSISTING ON
UNIFORM BRAZILIAN DOMESTIC TAXES ON SOYBEANS AND SOYBEAN PRODUCTS
AND PROMISING TO IMPOSE COUNTERVAILING DUTIES IF TAXES NOT
BROUGHT IN LINE. EEC CITED ITS REGULATION NO. 143/67 EEC OF THE
COUNCIL ISSUED JUNE 21, 1967 ON CERTAIN VEGETABLE OIL IMPORTS WHICH
REFERS TO MORE FUNDAMENTAL POLICY IN ARTICLE 38 OF REGULATION NO.
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136/66 EEC. BRAZIL CURRENTLY IMPOSES A 13 PERCENT STATE ICM TAX
ON BEANS, A 7.5 PERCENT TAX ON MEAL, AND NO ICM TAX ON SOYBEAN OIL.
THE DIFFERENTIAL TAX RATES ARE TO PROMOTE CRUSHING OF SOYBEANS IN
BRAZIL. SOURCE SAID EEC HAD NO OBJECTION TO PRESENT IPI TAX CREDIT
ON SOYBEAN OIL WHICH IS BEING PROGRESSIVELY REDUCED AS A RESULT OF
THE SOMON/SUMONSEN AGREEMENT FROM 8 PERCENT AT PRESENT TO 4 PERCENT
ON JULY 1, 1977 AND TO ZERO ON JANUARY 1, 1978. EEC NEGOTIATORS

DID CRITICIZE BRAZILIAN EXEMPTION ON CORPORATE INCOME TAX FOR EXPORTS OF INDUSTRIALIZED PRODUCTS SUCH AS SOYBEAN OIL AND MEAL.

2. SOURCE IS CONCERNED BECAUSE EEC MADE IT CLEAR TO BRAZILIANS THAT THEIR POLICY APPLIES TO ALL AGRICULTURAL BASED MANUFACTURED OR PROCESSED COMMODITIES: I.E., COTTON TEXTILES AND YARN, SISAL PRODUCTS, ORANGE JUICE CONCENTRATE; COCOA BUTTER, ETC.

3. BRAZILIAN TECHNICIANS WILL MEET IN RIV WEEK OF JUNE 13 TO PREPARE FOR ANOTHER ROUND OF TALKS WITH EEC LAST WEEK IN JUNE OR FIRST WEEK IN JULY. SOURCE DOES NOT BELIEVE THAT BRAZILIANS CAN REMOVE SOYBEAN STATE TAXES BECAUSE STATES ARE ALREADY DESPERATE FOR TAX REVENUES. HE ALSO BELIEVES THAT BRINGING TAX RATES ON MEAL AND OIL UP TO PRESENT ICM TAX LEVELS ON BEANS WOULD BANKRUPT OVER HALF OF THE CRUSHERS IN BRAZIL. THERE ARE ONLY THREE LARGE CRUSHERS IN BRAZIL; SANBRA (BUNGE BORNE); CARGILL; AND ANDERSXN CLAYTON (UNDER CONSTRUCTION). OTHER CRUSHERS ARE ALL SMALL SCALE.

4. STRATEGY WHICH SOURCE BELIEVES BRAZIL WILL ADOPT IS TO ATTEMPT TO GET EEC TO AGREE TO SOME MODEST INCREASE IN MEAL AND OIL ICM TAXES, WITHOUT IMPOSING COUNTERVAILING DUTIES. SHOULD EEC IMPOSE COUNTERVAILING DUTIES, SOURCE FEARS BRAZILIAN MACHO REACTION OF HALTING ALL SOYBEAN EXPORTS, THROWING EUROPEAN DEMAND ON AMERICAN MARKET IN EARLY JULY. EEC HAS APPARENTLY CONVINCED BRAZILIAN NEGOTIATORS THAT COUNCIL HAS THE POWER TO MAKE COUNTERVAILING DUTIES APPLICABLE IMMEDIATELY. IF BRAZILIAN EMBARGO OF BEANS SHOULD OCCUR OR IF SUBSTANTIAL AMOUNTS OF TOTAL EUROPEAN DEMAND FOR MEAL AND OIL SHOULD SHIFT TO THE U.S. CONFIDENTIAL

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AS RESULT OF THE COUNTERVAILING DUTIES, IMPACT ON AMERICAN MARKET BEFORE NEXT CROP HARVESTED WOULD BE GREAT, SOURCE CONCLUDES BRAZILIANS MAY EVEN RELISH DESTABILIZING AMERICAN MARKET AND EVEN FORCING TEMPORARY AMERICAN GOVERNMENT EMBARGO ON SOYBEANS AND OR PRODUCTS EXPORTS.

5. EMBASSY COMMENT. EMBASSY HAS SOME DOUBT THAT GOB WOULD ADOPT SUCH AN--ULTIMATELY--IRRATIONAL AND DISASTROUS COURSE. CONCEIVABLY, THIS INFORMATION MAY HAVE BEEN PASSED TO MISSION IN ORDER TO INDUCE USG TO WEIGHT IN WITH EC.

6. FAS HAS SEEN.
CRIMMINS

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NNN

Message Attributes

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